THE INVESTOR'S INTEREST IN THE DEMANDS OF THE ANTHRACITE MINERS

The president of the Reading Company, during the progress of the coal strike, stated that it was impossible for his company to grant the demands of the striking miners since to make the concessions demanded would be to destroy the corporation, for whose solvency and prosperity its officers were responsible. In other words, the real issue of the strike was declared to be a choice between higher wages for the men or solvency for the corporation.

The investment aspect of the controversy between the coal companies and their employees has received less attention than it deserves. The stocks and bonds of the coal roads are widely held. They are found among the investments of persons of moderate means. They are used as bank collateral. They constitute a portion of the assets of many investment institutions. President Baer's statement plainly implies that the United Mine Workers have made demands whose concessions means serious losses to the investors in these securities. If this statement is true, the gravity of the situation is much increased. The total outstanding capitalization of the five anthracite coal roads is $604,500,000. It is no light thing to attack an interest of such magnitude when the success of the attack may be a material reduction of so important a mass of investment value. Moreover, besides the five coal carriers,[1] three other railway companies, the Pennsylvania, the Erie, and the New York, Ontario and Western are heavily interested in anthracite coal. The earnings of these roads will also be affected by an increase in the cost of mining. Let us consider the basis of President Baer's statement as applied to the outstanding capitalization of the *Reading Company,* the most important of the coal corporations.[2] The capitalization of the Reading is as follows:

[1] The five railroads commonly known as the Anthracite Coalers are as follows: Philadelphia & Reading, Central of New Jersey, Lehigh Valley, Delaware, Lackawanna & Western, and Delaware & Hudson.

[2] The Reading Company should be distinguished from the Philadelphia & Reading Railroad Company, whose stock and property it acquired in the reorganization of 1896.

Common stock	$70,000,000
First preferred stock	28,000,000
Second preferred stock	42,000,000
General mortgage loan	63,146,000
Jersey Central collateral trust mortgage	23,000,000
Consolidated mortgage	18,811,000
Other bonds and debt	47,615,097
Total	$292,572,097[3]

The market value of the stock, which represents the surplus value of the corporation's property above the security for its various bond issues, on September 15, 1902, was $119,390,000. This value is not apparently based upon realized earnings but upon future prospects. In 1901, for example, the Reading Company earned over operating expenses a profit of $15,583,971. Out of this, fixed charges and taxes took $12,920,884, leaving a surplus available for distribution to stockholders of $2,663,087. This surplus added to those of previous years made the total surplus of the Reading Company at the end of 1901 $5,172,830. Out of this, $934,735 was paid in dividends on the first preferred stock; and $366,371 was applied to the sinking fund, leaving the total surplus at the end of the last fiscal year $3,871,724. Neither the second preferred stockholders nor the common stockholders received any dividends.

The narrow margin of profits over compulsory disbursements which the Reading Company earned during a period of exceptional prosperity is evident. The reserve, as shown on the income account, amounted to only 2.7 per cent of the par value of the stock and to 3.1 per cent of their market value. It is no doubt true that the Reading has followed the usual practice of American railroads in charging to operating expenses a large portion of the cost of improvements, a portion of which might with greater propriety be added to the reserve; but even when a liberal allowance for these concealed accumulations is made, the amount of accumulated profits over fixed charges is small. Many of the present stockholders who have held on through three reorganizations, and who have paid large assessments to rehabilitate the corporation, have still some time to wait before receiving anything on their investments.

At the time the strike was declared, the earnings of the Reading

[3] Col. S. f. gold loan not included.

were increasing. Stability of prices had been secured, and the outlook was favorable for the stockholders. As yet, however, the company, so far from being prosperous, was not altogether out of danger, if the demand for anthracite coal should decline. To the Reading Company now came the president of the miners' organization with a demand for a 20 per cent advance in wages. This is the plain meaning of the strikers' demands. Reduced to their lowest terms, an increase of 20 per cent in the contract price for mining coal, a reduction in the weight of the car, and an eight-hour day at present wages, means to the operator an increase of at least one-fifth in wages expense.[4] The total wages bill of all the anthracite companies in 1901, according to Mr. Baer, was $66,000,000. The companies controlled by the Reading Company produced 26.23 per cent of the total output, so it is fair to assign them one-fourth of the wages cost or $16,500,000.[5] An increase of 20 per cent in this amount is $3,300,000, which, if the miners succeed, would be added to the expenses of the Reading.

The average surplus over fixed charges of this company for the three years 1899-1900 and 1901 was $1,922,132. Even allowing that an equivalent amount of profits was concealed and invested in improvements which increased the earning capacity of the properties, and this admission probably exceeds the truth, the annual surplus over fixed charges would not exceed $4,000,000. A large portion of these improvements, moreover, such for example as the building of way stations, represent merely the necessary incidents of the physical rehabilitation of the property and may not be reflected in increased earnings. When the increase in wages now demanded by the miners is deducted from this reserve, on the basis of the results of the last three years, the earnings of the Reading Company would fall to $700,000 above its fixed charges. Supposing that half the demands of the strikers were conceded—and during the strike Mr. Mitchell offered to compromise on this basis—the deduction of $2,200,000 from the average surplus would reduce it to $2,350,000 above the dead line of bankruptcy. The earnings of

[4] President Baer states that the increase would be $20,000,000 over the present figure of $66,000,000.

[5] This estimate assumes that the Reading, which owns one-half the stock of the Central of New Jersey, would nominally receive one-half the earnings on the anthracite business of that road. The Reading and the Central of New Jersey together transported in 1901 one-third of the total output.

these three years have been unusually large. Unless important economies could be immediately introduced in the cost of mining and selling, or unless the market for the product could be broadened, it is plain that if the company should grant even half the strikers' demands, it would be unusually fortunate to pay the advance and at the same time keep out of the hands of a receiver.

The recent tone of popular discussion seems to be that the present contest is between a wealthy corporation and its poverty-stricken employees. It will conduce to clearness of thought if we remember that while the miners may be poor, the Reading Company, as compared with similar corporations, is also poor. The miner is struggling to meet his store bill and the president and directors are worrying over their slender surplus. The wages of the miners may be too low for comfortable living but the stockholders of the corporation are looking to the directors to get something for them in the way of dividends; some of them have been waiting for these dividends for the last quarter century. While the miners, on the basis of earnings in other occupations, may be entitled to an advance in wages, on the other hand, in view of the financial condition of the Reading, the officers of that corporation, who are responsible to the stockholders for the management of their properties, would have been undeserving the further confidence of their employers if they had failed to resist by every lawful means in their power the demands of the union.

So much for the position of the Reading. The Lehigh Valley, during this period, shows no surplus, but a deficit of $2,026,991. It is true that its concealed reserve of earnings is certainly large. There is reason, however, to believe that it would be seriously injured by such an increase of operating expenses as the miners propose.[6] The three other coal carriers, the Delaware and Hudson, the Delaware, Lackawanna and Western and the Central of New Jersey are in a stronger position. Their average surplus over fixed charges from 1899 to 1901 was $5,707,994.37. They could probably pay the 10 per cent increase in wages offered as a compromise without danger of bankruptcy, although the dividends of the Central of New Jersey and the Lackawanna on the basis of the showing of the past four years would probably have to be reduced. The Reading Company owns $14,300,000 of the stock of the Central of New Jersey. A

[6] The estimated increase in the expenses of the Lehigh Valley is $930,000.

reduction of dividends on this stock, therefore, while it might imperil the interest on the bonds issued to pay for the stock would not affect the interest on the bonds of the controlled road.

This is the investment aspect of the controversy. If the miners lose their case, and providing this strike is not soon repeated, the solvency of the weaker coal carriers is assured and those of their stockholders who are not now receiving anything on their investments can perhaps look for better things in the future. If, however, the miners obtain even half of their original demands, two of these five corporations are in danger of serious losses and the dividends of the other three, at least for some time to come, may have to be reduced. If the English-speaking miners succeed in their attempt to raise the standard of living in the anthracite region, so far as the present situation shows anything of the result, this must be done at the expense of the investors in coal stocks and bonds. The controversy, in short, is not between the corporation and the miner but between the miners and the proprietors and creditors of the anthracite roads; in a word, between the mine worker and the investor.

It may be urged, in fact it has been urged by the representatives of the mine workers before the Board of Arbitration, that the companies can recoup themselves for the increased wages by raising the price of coal to the consumer. The success of this expedient, however, is by no means certain. At least 40 per cent of the output of the mines is sold for steam purposes in competition with bituminous coal.[7] The price of the steam sizes cannot be permanently increased without reducing the demand. For the 60 per cent which remains for domestic use, it may be that the price can be advanced. The Philadelphia consumer, during the past year, has paid from $5.75 to $6.25 for a delivered ton of prepared sizes. He might pay a price sufficiently higher to allow the companies, without danger, to pay the increase in wages demanded. If such an advance is made, however, the door is opened a little wider to the substitutes for anthracite coal in dometic use: bituminous coal, coke, gas and oil, each one of which is already pressing into the domestic market; indeed there is much reason to believe that $6.25 is too high for a permanent price. Bituminous coal has generally sold at less than

[7] This statement is based on records of individual operations, but fairly represents the conditions of the industry. The production of steam coal has largely increased in recent years.

one-half the price of anthracite and the adaptation of the cheaper product to the domestic buyer does not seem to be impossible. Sound business judgment would not apparently sanction a permanent advance in the price of anthracite coal sufficient to compensate for the increase in wages, especially when the hostile attitude of a large section of the population toward any advances in price by combinations of capital is considered. If the companies are to recoup themselves for a possible advance in wages it must be in some other way than by raising prices.

The possibility of reducing the cost of operation and distribution is much greater than that of increasing the price of the product. On the average, throughout the large cities of the east, the prepared sizes of coal have been sold during the last two years at about $4.50 per ton to the dealer, and at $6.00 per ton to the consumer.[8] Out of this margin of $1.50 per ton is paid cartage, interest, rentals, expenses of advertising and soliciting and office expenses. These expenses, the writer is credibly informed, do not much exceed $1.00 per ton, leaving about fifty cents per ton as the dealer's profit. From this again must be deducted the losses from bad debts and from breakage in the yards.

Now that competition in the anthracite coal trade has been checked and controlled, there is no reason for distributing coal through retail dealers. It could be done equally well by agents of the coal companies. The consumer must have his fuel. He would buy it just as readily from the Reading Coal and Iron Company as from the middleman. By instituting this reform the coal companies could greatly reduce the cost of distribution. The number of yards could be reduced. Wagons could be kept in continuous operation. Clerk hire and advertising expenses could be largely done away with, and cash terms of payment could be insisted upon. In addition to these savings, the coal companies, by selling direct to the consumer, could get for themselves all the middleman's profits. A large additional profit without increasing the price to the consumer would be the result. Indications are not lacking that the possibilities of profit involved in the elimination of the middleman are fully realized by the coal companies. The Reading has, during the past two years, taken over the business of its line salesmen, and this step is regarded as preliminary to similar moves in the large cities.

[8] Rebates from the circular prices have been given to stimulate summer buying.

Another possibility of economy lies in the better utilization of the fine coal produced in connection with the preparation of the stove sizes. At present, owing to the imperfect appliances in vogue for washing small coal, it comes to market containing a large percentage of slate which, in some cases, runs the total amount of ash to 25 per cent. This impure coal has to compete with bituminous coal, which, though sold at a higher price, is of superior quality. The market for the steam sizes of anthracite can, without doubt, be much broadened and strengthened if improved washing appliances are substituted for those now in use, and these improvements are gradually being introduced as their necessity becomes apparent.

In the same connection, the waste of fine coal, called breaker dust, can be profitably prevented. The amount of this material which is annually thrown away has been estimated by mining engineers in the region at from 5,000,000 to 10,000,000 tons. The figure first mentioned is probably conservative. This dust can all be utilized either in the form of briquettes, as is univercally done in Europe, or the dust can be burned by the use of automatic stokers, rapidly coming into general use. A large addition can be made to the income of the coal roads by putting this breaker dust in marketable form.

These are the most important of the various economies which can be introduced into the anthracite coal industry. They cannot be carried through in a hurry; much time must elapse before their general adoption. But the aggregate saving to the companies, which they potentially represent, is large. If the earnings of the roads increased, the stockholders would probably not offer violent opposition to a division of the new profits with the mine workers. The increase of wages which is now demanded by the union without regard to its effect upon the solvency of the coal roads might, in the course of a short time of years, be granted without injury to the investor.

The question immediately arises, however, suppose that the advance is made either now or in the future, will the miners be satisfied? The representatives of the mine workers have stated that they regard $600 as the minimum wages necessary for decent existence. Suppose that by a fortunate conjunction of circumstances these companies are able, without danger of self-destruction, to pay this amount, will the miners stop there or will they take

advantage of the general sentiment in their favor to make fresh demands upon the coal companies? From the experience with trades unionism in the past, the answer must be in the affirmative. Even the highest paid of all laboring men, the iron and steel workers, have within the past two years taken a stand which showed not merely their disregard for contracts but their intention to place themselves in absolute control of the iron and steel industry. The repeated strikes in Chicago and St. Louis, the general strike of the International Association of Machinists and the recent strike of the mine workers show a general disposition on the part of organized labor to push their demands for higher wages without regard to the interests of the employer, and with apparently no conception that the investor has any interests whatever or that the stability of stocks and bonds is a matter which should in any way concern the laboring man. There is, therefore, no apparent reason to expect a greater degree of moderation on the part of the mine workers than has been displayed by other labor organizations. If they have the power to exact higher wages now, we may be reasonably certain that new demands will be made in the future.

It is now possible to understand the determined refusal of the officers of the coal companies to treat with the United Mine Workers except under the compulsion of public necessity and to interpret their apparent indifference to the clamor for a settlement as a manifestation of a conviction that if their properties were to be operated for profit the hold of the union in the anthracite field must be broken. If its power is strengthened and solidified by the support of public opinion, there is reason to fear that the struggles of 1900 and 1902 will be repeated in future years. If the mine workers gain control of the anthracite industry, the future of anthracite investments, not merely in stocks but in mortgage bonds, is extremely doubtful.

There is, however, another phase of the question which deserves serious attention. Public attention is now directed to the question of the overcapitalization of corporations, understanding by this term the issue of stocks and bonds to a larger amount than the earnings of the issuing companies will warrant. The effect of this practice is injurious to every interest except the interest of those who are directly responsible for the creation and sale of the inflated securities. The laboring man has been a heavy sufferer from the effects of overcapitalization. If this practice is to be allowed to continue, and if

public opinion is to protect the investor in his right to interest and dividends on any quantity of securities which corporations may see fit to issue, then there is very little prospect that the laboring man will improve his condition as rapidly as the interests of society would demand. A large portion of the profits of industry which might otherwise have contributed to advance his wages has repeatedly been deflected into the pockets of the promoters and underwriters of schemes for raising new capital.

Nor has the investor received any benefit from these practices. The investor buys a stock or bond on the basis of its yield, the higher and the more stable the return the higher is the price which he will pay. He is not, save in rare instances, able to share in the purchase of properties at a low figure for subsequent sale at much higher prices to the public. The fact that large amounts of such securities have been created and sold so far from being a benefit to the investor has, by the repeated disappointment of the extravagant expectations upon which the selling prices were based, inflicted serious injuries upon him in their decline. The securities of the Reading and the Lehigh Valley have furnished notorious illustrations of the losses which the investor sustains at the hands of the financier. It would be far better from the investor's standpoint if a large portion of the income which now is painfully inadequate to the payment of interest and dividends on inflated capitalization were paid to the laboring man, provided that the portion of income which remained could be capitalized on a conservative basis, and provided his possession of this income would not be endangered by the arbitrary exactions of organized labor. To make the matter more definite, it would apparently be far better for the holders of the $140,000,000 of the three stocks of the Reading Company, on most of which no dividends have been paid, or are likely to be paid for some time to come, if they would exchange these stocks for $50,000,000 of securities which would be certain to pay 4 per cent.

If the interest of the investor and the mine worker in the capitalization of the coal carriers were the only thing to be considered in determining the merits of the present controversy, the solution of the question would not be difficult. If the mine workers' demand was merely that their interests should not be sacrificed to correct the mistakes made in the capitalization of certain of the anthracite roads, and if the stability of these securities would be assured by rais-

ing wages and reducing the outstanding capitalization to the amount on which a fair return could be guaranteed, conservative judgment might ally itself with their cause. If the mine workers' demand was for a reorganization of the capitalization of the Reading and the Lehigh Valley so that the coal companies which they control would pay a minimum wage of $600 per year, and if this demand were accompanied by a guarantee that if it were granted investments in the anthracite field would not again be disturbed, the mine workers would have a much stronger case than that which they now present. We may go even further and admit that any increase of profits in the industry should be divided between stockholders and laborers, provided that if profits declined the losses should be divided on the same basis as the profits had been shared. There is much reason to believe that a reorganization of certain corporations doing business in Eastern Pennsylvania on the basis suggested might result in an industrial and financial condition in the anthracite field far more satisfactory than that which has prevailed for the past thirty years.

The benefits of such a reorganization, however, from the investor's standpoint, would not be realized without the provision of definite guarantees from the representatives of labor that security of investments would not again be disturbed by the demands of the miners for a larger share in the profits of the industry than was set forth in the agreement. Such a guarantee, it is needless to state, the mine workers are in no position to give. The union has no pecuniary responsibility, nor any liability for breach of contract, and it is difficult to see how the problem can at this time be settled as the interests of the investor would otherwise direct.

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